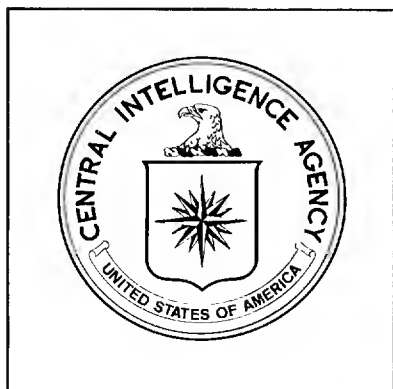


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MIDDLE EAST – AFRICA – SOUTH ASIA

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Iran

Foreign Borrowing in Perspective

Contrary to recent press reports, Tehran does not have a balance-of-payments problem requiring foreign borrowing. Iranian officials have been downplaying their country's financial strength to fend off aid requests and to justify higher oil prices.

Iran's balance-of-payments prospects remain highly favorable. Foreign reserves have reached \$10 billion and may well increase another \$2 billion by the end of the year.

Oil earnings of about \$20 billion, plus nearly \$2 billion in non-oil exports and investment income, will exceed the outlays for imports and net services, yielding a current surplus of nearly \$9 billion. After allowance for capital account movements, Iran still will be left with a hefty \$4.3 billion addition to reserves.

Although Tehran itself is not negotiating any large loans from abroad, individual private firms and public sector corporations are likely to borrow in the months ahead to help finance Iran's dynamic economic growth. Actual foreign borrowing will probably be less than \$1 billion in 1975.

Last week the privately owned Industrial and Mining Development Bank of Iran arranged for a \$100 million Eurocurrency loan. Another major potential borrower is the National Petrochemicals Company, which may ultimately float bonds for \$600 million in international capital markets. (CONFIDENTIAL NO FOREIGN DISSEM)

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Tunisia

Bourguiba Meets With Masmoudi

25X1C Last week President Habib Bourguiba reportedly met [REDACTED] with visiting former foreign minister Mohamed Masmoudi to discuss the terms under which Masmoudi could return to Tunisia permanently. Masmoudi has been living in Europe since he was fired in the wake of the Tunisian-Libyan union fiasco in 1974.

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[REDACTED]

Masmoudi, a proud man with influential contacts in and out of Tunisia, is probably holding out for a ministerial position as his price for being "rehabilitated." Tunis has been rife with rumors that Masmoudi seeks the post of prime minister, now held by Hedi Nour. After a period of "good behavior," Masmoudi may be restored to a government position, but is not likely to be made prime minister. At this time, Nour seemingly still has Bourguiba's support. (SECRET/NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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Bangladesh

Moscow's Reaction to the Coup

The Soviets have been publicly noncommittal about last week's coup in Bangladesh, but--like most observers--undoubtedly see it as a setback for Soviet and Indian interests in Bangladesh.

Moscow had its problems with former president Mujib, who resented Soviet niggardliness in providing economic aid. The Soviets felt, nonetheless, that he was the only person who could keep Bangladesh from disintegrating under the burden of its economic problems. They welcomed his assumption of more authoritarian power not only because it was in keeping with their own political traditions, but also because they hoped it would enable him to deal more effectively with Bangladesh's problems.

The coup seems to have taken Moscow by surprise. The day before, one of the USSR's South Asian "experts" in Moscow had said he thought Mujib had a good chance of ridding the Bengali government of its administrative chaos and corruption because Mujib enjoyed broad popular support, especially among younger cadres. The day of the coup, Soviet officials in Dacca were busily scurrying about town trying to find out about the origins of the coup and the orientation of the new regime.

The Soviets are probably uneasy about Pakistan's early recognition of the new regime, fearing that a Pakistani-Bengalee rapprochement can take place only at the expense of Dacca's ties to New Delhi and Moscow. They are also unhappy about the alleged pro-US sympathies of the coup leaders. Their greatest concern, however, is that the new government will move to improve Bangladesh's relations with China.

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Until they have a better idea of which way the wind is blowing, the Soviets are unlikely to do or say anything that would antagonize the new leaders. Moscow will probably let India take the lead in testing the sincerity of the new government's pledges that Bangladesh will continue to follow the same foreign policy as before. The Soviets will caution India against overreaction even though India apparently needs no such advice. Reporting from New Delhi suggests that while India believes the new government is anti-Indian and anti-Soviet, it will "wait and see."

The Soviets may be worried about the "domino effect" of events in Bangladesh or neighboring India. Moscow has supported Prime Minister Gandhi [REDACTED] but even prior to the coup expressed concern over the possibility of a right-wing reaction to Gandhi's recent moves. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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